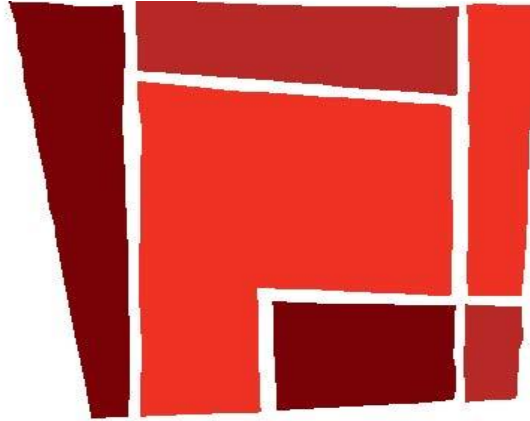


GUIDANCE FOR FEDERAL GRANT AWARD  
MANAGEMENT



**ARIZONA DEPARTMENT  
OF HEALTH SERVICES**



## Preface

On February 28, 2011, President Barack O'Bama issued [Executive Order 13520](#). Through the Office of Management and Budget (OMB), a Council on Financial Assistance Reform (COFAR) was created in an effort to improve federal award transparency, oversight and performance. The final guidance, now known as the "Super Circular" or "Omni Circular" was released to the general public on December 26, 2013, and was effective for audits beginning on or after December 26, 2014. The new guidance can be located in the [CFR Title II, Subtitle A](#). This guidance document for federal grant award management was created by the Arizona Department of Health Services in order to issue current streamlined guidance for pass-through entities in managing their federal grant funding. The release of this manual replaces all former guidance issued in the former Arizona Department of Health Services' "ADHS Accounting and Auditing Procedures Manual for Contractors of ADHS Funded Programs" in its entirety.

## Effective Guidance

The release of the "Super Circular" or "Omni Circular" on December 26, 2013, replaced all former grant award cost principle guidance and amended audit requirements from the OMB. Due to various entity federal classifications, the OMB created one streamlined circular to help its interpretation by those organizations needing a reference. In addition, the OMB was looking to create a streamlined, tech savvy way for entities to submit their annual audit information to the Federal Audit Clearinghouse (FAC) once the audit had been completed. The following OMB Circulars therefore discarded their former cost principle guidance and adopted [2 CFR Parts 200.00 to 200.521 with appendices](#). Audit requirements remained, for the most part, largely unchanged.

A-21 – "Cost Principles for Educational Institutions"  
A-87 – "Cost Principles for State, Local and Indian Tribal Governments"  
A-89 – "Federal Domestic Assistance Program Information"  
A-102 – "Grant Awards and Cooperative Agreements with State and Local Governments"  
A-110 – "Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations"  
A-122 – "Cost Principles for Non-Profit Organizations"  
A-133 – "Audits of States, Local Governments, and non-Profit Organizations" and those sections of A-50 related to audits performed under Subpart F.

## About the Authors

This guidance manual was created by the Arizona Department of Health Services as an agency-wide effort from representatives in program finance management, accounting, audit, procurement, the agency controller's office and the agency CFO. Our hope in the creation of this guidance would be that end users find the document a current, reliable resource regarding management of their federal funds. The guidance contained in this manual was derived from current federal law, state statute, state agency policy, procedure, or best practice at the time of its creation, as indicated by the date below. This document is not, **and should not** be used as a replacement for any of the guidance contained in the Code of Federal Regulations in [2 CFR, Grants and Agreements](#), or [Federal Acquisition Regulations in 48 CFR](#) or any other federal guidance.

It is important to take into account that **the federal guidance is an all encompassing guidance**; meaning that the rules and regulations set forth in [2 CFR 200](#) carry down from the Federal Government (OMB), to the sponsoring Federal Agency (Agriculture, Health and Human Services, Interior, Transportation), to the awarding agency (State), to the pass-through entity level (Counties, Non-Profits, etc...) and there are few, if any, exceptions to the regulations that must be adhered to. For further reference to the expectations on applicability, we suggest you reference [2 CFR 200.101 – Applicability](#).

**Should you or any of your staff have questions regarding the proper administration of your contract, you should reference the CFR Title II, contact the sponsoring bureau's finance manager, the sponsoring bureau's program manager, the grant's financial contracts manager or appropriate grant accounting personnel.**

**Date: February 13, 2018**

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## **Chapter 1**

### **Acronyms and Definitions**

#### **Acronyms**

|                |   |
|----------------|---|
| <b>A.R.S</b>   | Arizona Revised Statute   |
| <b>CAS</b>     | Cost Accounting Standards   |
| <b>FDA</b>     | Catalog of Federal Domestic Assistance  |
| <b>CFR</b>     | Code of Federal Regulations   |
| <b>CFDA</b>    | Catalog of Federal Domestic Assistance  |
| <b>CMIA</b>    | Cash Management Improvement Act   |
| <b>COG</b>     | Councils of Governments   |
| <b>COSO</b>    | Committee of Sponsoring Organizations of the Treadway Commission                        |
| <b>EPA</b>     | Environmental Protection Agency   |
| <b>ERISA</b>   | Employee Retirement Income Security Act of 1974 ( <a href="#">29 U.S.C. 1301-1461</a> ) |
| <b>EUI</b>     | Energy Usage Index  |
| <b>F&amp;A</b> | Facilities and Administration   |
| <b>FAC</b>     | Federal Audit Clearinghouse   |
| <b>FAIN</b>    | Federal Award Identification Number   |
| <b>FAPIIS</b>  | Federal Awardee Performance and Integrity Information System                            |
| <b>FAR</b>     | Federal Acquisition Regulation  |
| <b>FFATA</b>   | Federal Funding Accountability and Transparency Act of 2006 or Transparency Act         |
| <b>FICA</b>    | Federal Insurance Contributions Act   |
| <b>FOIA</b>    | Freedom of Information Act  |
| <b>FR</b>      | Federal Register  |
| <b>FTE</b>     | Full-time equivalent  |
| <b>GAAP</b>    | Generally Accepted Accounting Principles  |
| <b>GAGAS</b>   | Generally Accepted Government Auditing Standards  |
| <b>GAO</b>     | Government Accountability Office  |
| <b>GOCO</b>    | Government owned, contractor operated   |
| <b>GSA</b>     | General Services Administration   |
| <b>IBS</b>     | Institutional Base Salary   |

|               |  |
|---------------|--|
| <b>IHE</b>    | Institutions of Higher Education                           |
| <b>IRC</b>    | Internal Revenue Code                                      |
| <b>ISDEAA</b> | Indian Self-Determination and Education and Assistance Act |
| <b>MTC</b>    | Modified Total Cost  |
| <b>MTDC</b>   | Modified Total Direct Cost                                 |
| <b>OMB</b>    | Office of Management and Budget                            |
| <b>PII</b>    | Personally Identifiable Information                        |
| <b>PMS</b>    | Payment Management System                                  |
| <b>PRHP</b>   | Post-retirement Health Plans                               |
| <b>PTE</b>    | Pass-through Entity  |
| <b>REUI</b>   | Relative Energy Usage Index                                |
| <b>SAM</b>    | System for Award Management                                |
| <b>SFA</b>    | Student Financial Aid                                      |
| <b>SNAP</b>   | Supplemental Nutrition Assistance Program                  |
| <b>SPOC</b>   | Single Point of Contact                                    |
| <b>TANF</b>   | Temporary Assistance for Needy Families                    |
| <b>TFM</b>    | Treasury Financial Manual                                  |
| <b>U.S.C.</b> | United States Code   |
| <b>VAT</b>    | Value Added Tax  |

## **Definitions**

[Acquisition cost](#)

[Advance payment](#)

[Allocation](#)

[Audit finding](#)

[Auditee](#)

[Auditor](#)

[Awardee](#)

[Budget](#)

[Central service cost allocation plan](#)

[CFDA number](#)

[CFDA program title](#)

[Capital assets](#)

[Capital expenditures](#)

[Claim](#)

[Class of Federal awards](#)

[Closeout](#)

[Cluster of programs](#)

[Cognizant agency for audit](#)

[Cognizant agency for indirect costs](#)

[Computing devices](#)

[Compliance supplement](#)

[Contract](#)

[Contractor](#)

[Cooperative agreement](#)

[Cooperative audit resolution](#)

[Corrective action](#)

[Cost allocation plan](#)

[Cost objective](#)

[Cost Sharing or Matching](#)

[Cross-cutting audit finding](#)

[Disallowed costs](#)

[Equipment](#)

[Expenditures](#)

[Federal agency](#)

[Federal Audit Clearinghouse \(FAC\)](#)

[Federal Awarding Agency](#)

[Federal award](#)

[Federal award date](#)

[Federal financial assistance](#)

[Federal interest](#)

[Federal program](#)

[Federal share](#)

[Final cost objective](#)

[Fixed amount awards](#)

[Foreign public entity](#)

[Foreign organization](#)

[General purpose equipment](#)

[GAAP](#)

[GAGAS, also known as the Yellow Book](#)

[Grant agreement](#)

[Hospital](#)

[Improper payment](#)

[Indian tribe](#)

[IHE](#)

[Indirect \(F&A\) costs](#)

[Indirect cost rate proposal](#)

[Information technology systems](#)

[Intangible property](#)

[Intermediate cost objective](#)

[Internal controls](#)

[Internal control over compliance requirements for Federal awards](#)

[Loan](#)

[Local government](#)

[Major program](#)

[Management decision](#)

[Micro-purchase](#)

[Modified Total Direct Costs \(MTDC\)](#)

[Awardee](#)

[Nonprofit organization](#)

[Obligations](#)

[OMB](#)

[Oversight agency for audit](#)

[Pass-through entity](#)

[Participant support costs](#)

[Performance goal](#)

[Period of performance](#)

[Personal property](#)

[Personally Identifiable Information \(PII\)](#)

[Program income](#)

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[Third-party in-kind contributions](#)

[Unliquidated obligations](#)

[Unobligated balance](#)

[Vendor](#)

[Voluntary committed cost sharing](#)

## Chapter 2

### General Provisions

#### Purpose

This section clarifies the principles contained in [2 CFR 200.00 through 200.521](#) and their appendices, as well as which principles apply to any particular federal award. Title II of the Federal Code of Regulations is subdivided into six sections labeled A-F. Subpart A defines Acronyms and Definitions for Title II, Subpart B gives information regarding General Provisions, Subparts C – D describe Pre and Post Federal Award Requirements, Subpart E defines Cost Principles and Subpart F explains Audit Requirements.

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[2 CFR Subpart A](#) – Applies to all

[2 CFR Subpart B](#) – General Provisions, except for [2 CFR 200.111](#) (English Language), [2 CFR 200.112](#) (Conflict of Interest), [2 CFR 200.113](#) (Mandatory Disclosures) does apply to Grants, Agreements, and Cooperative Agreements, **but does not apply to Agreements to Loan Guarantees and Procurement Contracts Awarded by Federal Agencies under the FAR and Subcontracts under those contracts.**

[2 CFR Subparts C](#) and [2 CFR Subparts D](#) applies to all, except for [2 CFR 200.202](#) (Requirement to Provide Public Notice of Federal Financial Assistance Programs) [2 CFR 200.303](#) (Internal Controls) [2 CFR 200.330 – 2 CFR 200.332](#) (Subrecipient Monitoring and Management) applies to Grants, Agreements, and Cooperative Agreements, **but does not apply to Agreements to Loan Guarantees or Procurement Contracts Awarded by Federal Agencies under the FAR and Subcontracts under those contracts.**

[2 CFR 200.202](#) (Requirement to Provide Public Notice of Federal Financial Assistance Programs) applies to Grants, Agreements, and Cooperative Agreements, Agreements for Loans, Loan Guarantees, Interest Subsidies and Insurance, **but does not apply for Procurement Contracts Awarded by Federal Agencies under the FAR and Subcontracts under those contracts.**

[2 CFR 200.303](#) (Internal Controls), [2 CFR 200.330 – 200.332](#) (Subrecipient Monitoring and Management) applies to all.

[2 CFR Subpart E](#) – Applies to Grants, Agreements, and Cooperative Agreements except those providing food commodities. Applies to all Procurement Contracts under the FAR except those that are not negotiated, but **does not apply to Grant Agreements and Cooperative Agreements providing food commodities, Fixed amount awards, Agreements for Loans, Loan Guarantees, Interest Subsidies, and Insurance or Federal Awards to Hospitals.**

[2 CFR Subpart F](#) - Applies to Grants, Agreements, and Cooperative Agreements, Contract and Subcontracts except for fixed price contracts and subcontracts, awarded under the FAR. Applies to Agreements for Loans, Loan Guarantees, Interest Subsidies, and Insurance and other forms of Federal Financial Assistance as defined by the Single Audit Act Amendment of 1996. **Does not apply for fixed price contracts and subcontracts awarded under the FAR.**

#### Exempt Programs

1. Except for [2 CFR 200.202](#) (Requirement to Provide Public Notice of Federal Financial Assistance Programs) and [2 CFR 200.330](#) (Subrecipient and Contractor Determinations) to [200.332](#) (Fixed amount sub-awards of Subpart D) **Post Federal Award Requirements of subpart B, the requirements in Subpart C, Subpart D and Subpart E do not apply to the following programs:**

- Federal Awards to Local Education Agencies ([20 U.S.C 7702-7703b](#)).
- Payments under the Department of Veterans Affairs' State Home Per Diem Program ([38 U.S.C. 1741](#))
- Federal Awards Authorized under the Child Care and Development Block Grant of 1990 as amended.
- Child Care and Development Block Grant ([42 U.S.C. 9858](#))
- Child Care Mandatory and Matching Funds of the Child Care and Development Fund ([42 U.S.C. 9858](#))



2. Except for [CFR 2 200.202](#) (Requirement to Provide Public Notice of Federal Financial Assistance Programs) **the Guidance in Subpart C does not apply to the following programs:**

- Temporary Assistance to Needy Families ([42 U.S.C. 601-619](#))
- Child Support Enforcement and Establishment of Paternity ([42 U.S.C. 651-669b](#))
- Foster Care and Adoption Assistance ([42 U.S.C. 670-679c](#))
- Aid to the Aged, Blind, and Disabled (Titles I, X, XIV, and XVI-AABD of the act as amended)
- Medical Assistance ([Medicaid Title XIX of the act 42 U.S.C. 1396-1396w-5](#)) not including State Medicaid Fraud Control program authorized by section 1903 (a)(6)(b) of the [Social Security Act \(42 U.S.C. 1396b \(a\)\(6\)\(b\)\)](#)
- Children's Health Insurance Program ([Title XXI of the Act, 42 U.S.C. 1397aa-1397mm](#))
- A Federal award for an experimental, Pilot or demonstration project that is also supported by a federal award listed directly above.

3. Federal awards under subsection 412 (e) of the [Immigration and Nationality Act](#) and subsection 501(a) of the [Refugee Education Assistance Act of 1980](#) (Pub. L. 96-422. 94 Stat. 1809) for cash assistance, medical assistance, and supplemental security income benefits to refugees and entrants and the administrative costs of providing the assistance and benefits ([U.S.C. 1522\(e\)](#))

**4. Entitlements under the following programs of the National School Lunch Act**

- National School Lunch Program ([section 4 of the act 42 U.S.C. 1753](#))
- Commodity Assistance ([section 6 of the act 42 U.S.C. 1755](#))
- Special Meal Assistance ([section 11 of the act 42 U.S.C. 1759a](#))
- Summer Food Service Program for Children ([section 13 of the act 42 U.S.C. 1761](#))
- Child and Adult Care Food Program ([section 17 of the act 42 U.S.C. 1766](#))

**5. Entitlement awards under the following programs of the Child Nutrition Act of 1966**

- Special Milk Program ([section 3 of the act 42 U.S.C. 1772](#))
- School Breakfast Program ([section 4 of the act 42 U.S.C. 1773](#))
- State Administrative Expenses ([section 7 of the act 42 U.S.C. section 1776](#))

6. Entitlement awards for State Administrative Expenses under the Food and Nutrition Act of 2008 ([section 16 of the act 42 U.S.C. 2025](#))

**7. Nondiscretionary Federal Awards Under the Following Non-Entitlement Programs:**

- Special Supplemental Nutrition Program for Women Infants and Children ([section 17 of the Child Nutrition Act of 1966](#)) [42 U.S.C. section 1786](#).
- The Emergency Food Assistance Programs ([Emergency Food Assistance Act of 1983](#)) [7 U.S.C. section 7501 note](#)
- Commodity Supplemental Food Program ([Section 5 of the Agriculture and Consumer Protection Act of 1973](#)) [7 U.S.C. section 612c note](#)

**Exceptions**

With the exception of Subpart F – Audit Requirements, the Federal Government (OMB) may allow exceptions for classes of Federal Awards or non-Federal entities subject to the requirements when exceptions are not prohibited by statute. Exceptions for classes of non-Federal entities will be published on the [OMB website](#). Exceptions on a case-by-case basis for individual non-federal entities may be authorized by the Federal Awarding Agency or cognizant agency for indirect costs except where otherwise required by law or where the Federal Government or other approval is required.

The Federal Awarding Agency may apply more restrictive requirements to a class of Federal Awards or Non-Federal entities when approved by the Federal Government or when required by Federal Statutes or regulations, except for the requirements of 2 CFR Subpart F – Audit Requirements.

### **Effective/Applicability Date**

The standards as set forth in this manual are effective once implemented by Federal Awarding Agencies or when any future amendments to the part become final. Federal Awarding Agencies must implement the standards to be effective for audits started on or after December 26, 2014, unless different provisions are required by statute or are approved by the Federal Government.

### **English Language**

All Federal Financial Assistance announcements and Federal Award information must be in the English Language. Applications must be submitted in the English Language and must be in terms of United States Currency. If the Federal Awarding Agency receives an application in another currency, it will convert the amounts to appropriate US Currency based on the date specified for receipt of the application. Non-Federal entities may translate the Federal Award and other documents into another language. In the event of inconsistency between any terms and conditions of the Federal Award and any translation, the English meaning will prevail. Where a significant portion of an entities employee base are not fluent in English, the Awardee must provide the Federal Award in languages with which the employees are familiar.

### **Conflict of Interest**

The awardee must disclose, in writing, any potential conflict of interest to the Arizona Department of Health Services. Anyone who suspects a conflict of interest may exist in any Arizona Department of Health Services contract, agreement or IGA should report their concerns via e-mail to [conflictofinterest@adhs.gov](mailto:conflictofinterest@adhs.gov).

### **Mandatory Disclosures**

The awardee of a Federal Award must disclose, in a timely manner, in writing to the Arizona Department of Health Services all violations of Federal Criminal Law, involving fraud, bribery, or gratuity violations potentially affecting Federal Awards. Certain entities are required to report information in SAM (System for Award Management). Failure to make required disclosures can result in remedies for non-compliance including suspension or debarment proceedings ([2 CFR 338](#), [41 U.S.C. 2313](#)).

## **Chapter 3**

### **Pre-Federal Award Requirements and Procurement Standards**

#### **Pre-Award Requirements**

This chapter identifies, defines and clarifies procurement standards for federal awards in the use of grants, cooperative agreements and contracts. Sections [2 CFR 200.201 through 2 CFR 200.213](#) provides instructions to be included in the announcement and application process. The Arizona Department of Health Services must determine the correct instrument for the Federal Award (grant, cooperative agreement or contract).

**Fixed Amount Awards** – The Federal Award amount is negotiated using the cost principles as a guide. The Arizona Department of Health Services may use fixed amount awards if the project scope is specific and if adequate cost historical or unit pricing data is available to establish a fixed amount award based on a reasonable estimate of the actual cost. Payments are based on meeting specific requirements of the Federal Award. Accountability is based on performance and results. Payments may be issued in the following manner:

- ▶ Several Partial Payments
- ▶ On a unit price basis
- ▶ In one payment at Federal Award completion

#### **A fixed amount award cannot be used in programs which require mandatory cost sharing or matching.**

The awardee must certify, in writing, to the Arizona Department of Health Services at the end of the Federal Award that the project was completed or the level of effort expended. If the required level of activity or effort was not carried out, the amount of the Federal Award must be adjusted.

Periodic reports may be established for each Federal Award.

Changes in principle investigator, project leader, project planner, or scope of effort must receive prior written approval of the Arizona Department of Health Services.

#### **Specific Conditions**

The Arizona Department of Health Services may impose additional award conditions as needed under the following circumstances:

- ▶ Based on criteria listed in [2 CFR 200.205](#) (pass-through entity review of risk posed by applicants) when an applicant or recipient has a history of failure to comply with the general or specific terms and conditions of a Federal Award.
- ▶ When an applicant or recipient is not otherwise responsible.
  - These additional requirements may include such items as the following:
- ▶ Requiring payments as reimbursements rather than advance payments.
- ▶ Withholding authority to proceed to the next phase until receipt of evidence of satisfactory performance within a given period of time.
- ▶ Requiring additional, more detailed financial reports.
- ▶ Requiring additional project monitoring.
- ▶ Requiring the awardee to obtain technical or management assistance.
- ▶ Establishing prior approval policies.
  - The Arizona Department of Health Services must notify the applicant or awardee as to:
- ▶ The nature of the additional requirements.
- ▶ The reason why the additional requirements are being imposed.
- ▶ The nature of the action needed to remove the additional requirements, if possible.
- ▶ The time allowed for completing the actions, if appropriate.
- ▶ The method for requesting reconsideration of the additional requirements imposed.

Any specific condition must be promptly removed once the conditions that prompted them have been corrected.

## **Certifications**

Unless prohibited by Federal statute or regulations, the Arizona Department of Health Services is authorized to require the awardee to submit certifications required by Federal statutes or regulations on an annual basis. The submission of these reports may be required more frequently if the awardee fails to meet a requirement of the Federal Award.

## **Pre-Award Costs**

For requirements on costs incurred by the applicant prior to the start date of the period of performance of the Federal Award, see [2 CFR 200.458](#) – Pre-award costs.

## **Suspension and Debarment**

Awardees are subject to the non-procurement and debarment regulations implementing Executive orders 12549 and 12689, [2 CFR part 180](#). These regulations restrict awards, sub-awards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

## **Procurement Standards**

### **General Procurement Standards**

All other awardees, including subrecipients of a state, will follow [2 CFR 200.318](#) (General procurement standards) through [2 CFR 200.326](#) (contract provisions). The awardee must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law. Awardees must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders (The Arizona Department of Health Services Office of Auditing maintains the right to audit as depicted in the Audit Requirements section of this manual).

The awardee must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the awardee may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. However, awardees may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the awardee.

If the awardee has a parent, affiliate, or subsidiary organization that is not a state, local government, or Indian tribe, the awardee must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest means that because of relationships with a parent company, affiliate, or subsidiary organization, the awardee is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization.

The awardee must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following:

- ▶ Rationale for the method of procurement.
- ▶ Selection of contract type.
- ▶ Contractor selection or rejection.
- ▶ Basis for the contract price.

The awardee may use a time and materials type contract only after a determination that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk. Time and materials type contract means a contract whose cost to a awardee is the sum of:

- ▶ The actual cost of materials.
- ▶ Direct labor hours charged at fixed hourly rates that reflect wages, general and administrative expenses, and profit.

Since this formula generates an open-ended contract price, a time-and-materials contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, each contract must set a ceiling price that the contractor exceeds at its own risk. Further, the awardee awarding such a contract must assert a high degree of oversight in order to obtain reasonable assurance that the contractor is using efficient methods and effective cost controls.

The awardee alone must be responsible, in accordance with good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements. These issues include, but are not limited to, source evaluation, protests, disputes, and claims. These standards do not relieve the awardee of any contractual responsibilities under its contracts. The Arizona Department of Health Services will not substitute its judgment for that of the awardee unless the matter is primarily a State concern. Violations of law will be referred to the local, or state authority having proper jurisdiction.

### Competition

All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this chapter. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements. Some of the situations considered to be restrictive of competition include but are not limited to:

- ▶ Placing unreasonable requirements on firms in order for them to qualify to do business.
- ▶ Requiring unnecessary experience and excessive bonding.
- ▶ Noncompetitive pricing practices between firms or between affiliated companies.
- ▶ Noncompetitive contracts to consultants that are on retainer contracts.
- ▶ Organizational conflicts of interest.
- ▶ Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance or other relevant requirements of the procurement.
- ▶ Any arbitrary action in the procurement process.

The awardee must conduct procurements in a manner that prohibits the use of statutorily or administratively imposed state, local, or tribal geographical preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference. Nothing in this chapter preempts state licensing laws. When contracting for architectural and engineering (A/E) services, geographic location may be a selection criterion provided its application leaves an appropriate number of qualified firms, given the nature and size of the project, to compete for the contract.

The awardee must have written procedures for procurement transactions. These procedures must ensure that all solicitations:

- Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description must not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured and, when necessary, must set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a “brand name or equivalent” description may be used as a means to define the performance or other salient requirements of procurement. The specific features of the named brand which must be met by offers must be clearly stated and
- Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

The awardee must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, the awardee must not preclude potential bidders from qualifying during the solicitation period.

### Methods of procurement to be followed

The awardee must use one of the following methods of procurement:

#### [Procurement by micro-purchases](#)

#### [Procurement by small purchase procedures](#)

#### [Procurement by sealed bids](#)

If sealed bids are used, the following requirements apply:

- ▶ Bids must be solicited from an adequate number of known suppliers, providing them sufficient response time prior to the date set for opening the bids, for local, and tribal governments, the invitation for bids must be publically advertised.
- ▶ The invitation for bids, which will include any specifications and pertinent attachments, must define the items or services in order for the bidder to properly respond.
- ▶ All bids will be opened at the time and place prescribed in the invitation for bids, and for local and tribal governments, the bids must be opened publicly.
- ▶ A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs must be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of.
- ▶ Any or all bids may be rejected if there is a sound, documented reason.

[Procurement by competitive proposals](#). The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

- ▶ Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical.
- ▶ Proposals must be solicited from an adequate number of qualified sources.
- ▶ The Arizona Department of Health Services will have a written method for conducting technical evaluations of the proposals received and for selecting recipients.
- ▶ Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.
- ▶ The awardee may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

[Procurement by noncompetitive proposals](#). Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:

- ▶ The item is available only from a single source.
- ▶ The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation.
- ▶ The Arizona Department of Health Services expressly authorizes noncompetitive proposals in response to a written request from the awardee.
- ▶ After solicitation of a number of sources, competition is determined inadequate/impracticable.

#### [Contracting with small business enterprises, and labor surplus area firms](#)

The awardee must take all necessary affirmative steps to assure that small businesses enterprises and labor surplus area firms are used when possible.

#### [Affirmative steps must include:](#)

- ▶ Placing qualified small business enterprises on solicitation lists.



- ▶ Assuring that small businesses, business enterprises are solicited whenever they are potential sources.
- ▶ Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small businesses and business enterprises.
- ▶ Establishing delivery schedules, where the requirement permits, which encourage participation by small businesses and business enterprises.
- ▶ Using the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Department of Commerce.
- ▶ Requiring the prime contractor, if subcontracts are to be let, to take affirmative step for small businesses and business enterprises.

### Contract cost and price

The awardee must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent upon the facts surrounding the particular procurement situation, but as a starting point, the awardee must make independent estimates before receiving bids or proposals.

The awardee must negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration must be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.

Costs or prices based on estimated costs for contracts under the Federal award are allowable only to the extent that costs incurred or cost estimates included in negotiated prices would be allowable for the awardee under [Subpart E—Cost Principles](#). The awardee may reference its own cost principles that comply with the state cost principles.

The cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used.

### Federal Awarding Agency or pass-through entity review

The awardee must make available, upon request of the Arizona Department of Health Services, technical specifications on proposed procurements where the Arizona Department of Health Services believes such review is needed to ensure that the item or service specified is the one being proposed for acquisition. This review generally will take place prior to the time the specification is incorporated into a solicitation document. However, if the awardee desires to have the review accomplished after a solicitation has been developed, the Arizona Department of Health Services may still review the specifications, with such review usually limited to the technical aspects of the proposed purchase.

The awardee must make available upon request, for the Arizona Department of Health Services pre-procurement review, procurement documents, such as requests for proposals or invitations for bids, or independent cost estimates, when:

- ▶ The awardee's procurement procedures or operation fails to comply with the procurement standards in this part.
- ▶ The procurement is expected to exceed the Simplified Acquisition Threshold and is to be awarded without competition or only one bid or offer is received in response to a solicitation.
- ▶ The procurement, which is expected to exceed the Simplified Acquisition Threshold, specifies a "brand name" product.
- ▶ The proposed contract is more than the Simplified Acquisition Threshold and is to be awarded to other than the apparent low bidder under a sealed bid procurement.
- ▶ A proposed contract modification changes the scope of a contract or increases the contract amount by more than the Simplified Acquisition Threshold.

The awardee is exempt from the pre-procurement review section if the Arizona Department of Health Services determines that its procurement systems comply with the standards of this chapter.

The awardee may request that its procurement system be reviewed by the Arizona Department of Health Services to determine whether its system meets these standards in order for its system to be certified. Generally, these reviews must occur where there is continuous high-dollar funding, and third party contracts are awarded on a regular basis.

The awardee may self-certify its procurement system. Such self-certification must not limit the Arizona Department of Health Service's right to survey the system. Under a self-certification procedure, the Arizona Department of Health Services may rely on written assurances from the awardee that it is complying with these standards. The awardee must cite specific policies, procedures, regulations, or standards as being in compliance with these requirements and have its system available for review.

### **Bonding requirements**

For construction or facility improvement contracts or subcontracts exceeding the Simplified Acquisition Threshold, the Arizona Department of Health Services may accept the bonding policy and requirements of the awardee provided that the Arizona Department of Health Services has made a determination that the state's interests are adequately protected. If such a determination has not been made, the minimum requirements must be as follows:

- ▶ A bid guarantee from each bidder equivalent to five percent of the bid price. The "bid guarantee" must consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of the bid, execute such contractual documents as may be required within the time specified.
- ▶ A performance bond on the part of the contractor for 100 percent of the contract price. A "performance bond" is one executed in connection with a contract to secure fulfillment of all the contractor's obligations under such contract.
- ▶ A payment bond on the part of the contractor for 100 percent of the contract price. A "payment bond" is one executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in the execution of the work provided for in the contract.

### **Contract provisions**

The awardee's contracts must contain the applicable provisions described in [Appendix II to Part 200](#)—Contract Provisions for awardee Contracts Under Federal Awards.



## **Chapter 4**

### **Standards for Financial, Program and Property Management**

The awardee is responsible for complying with all requirements of the Federal award. For all Federal awards, this includes the provisions of FFATA, which includes requirements on executive compensation, and also requirements implementing the Act for the awardee at [2 CFR part 25](#) Financial Assistance Use of Universal Identifier and System for Award Management and [2 CFR part 170](#) Reporting Subaward and Executive Compensation Information. See also statutory requirements for whistleblower protections at [41 U.S.C. 4712](#) , and [10 U.S.C. 2324](#), [41 U.S.C. 4304](#) and [4310](#).

#### **Performance measurement**

The award recipient's performance should be measured in a way that will help the Arizona Department of Health Services and other entities to improve program outcomes, share lessons learned, and spread the adoption of promising practices.

#### **Financial management**

**Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds.** In addition, the state's and the other awardee's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also [2 CFR 200.450](#) Lobbying. The financial management system of each awardee must provide for the following (see also [2 CFR 200.333](#) Retention requirements for records, [2 CFR 200.334](#) Requests for transfer of records, [2 CFR 200.335](#) Methods for collection, transmission and storage of information, [2 CFR 200.336](#) Access to records, and [2 CFR 200.337](#) Restrictions on public access to records):

- ▶ Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
- ▶ Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in [2 CFR 200.327](#) Financial reporting and [2 CFR 200.328](#) Monitoring and reporting program performance. If the Arizona Department of Health Services requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient **must not** be required to establish an accrual accounting system.
- ▶ Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- ▶ Effective control over, and accountability for, all funds, property, and other assets. The awardee must adequately safeguard all assets and assure that they are used solely for authorized purposes. See [2 CFR 200.303](#) Internal controls.
- ▶ Comparison of expenditures with budget amounts for each Federal award.
- ▶ Written procedures to implement the requirements of [2 CFR 200.305](#) Payment.
- ▶ Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this part and the terms and conditions of the Federal award.

#### **Internal controls**

The awardee must:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the awardee is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “[Standards for Internal Control in the Federal Government](#)” issued by the Comptroller General of the United States or the “[Internal Control Integrated Framework](#)”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Take reasonable measures to safeguard Protected Personally Identifiable Information (PII) and other information the Arizona Department of Health Services designates as sensitive or the awardee considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

## **Payment**

For non-Federal entities other than states, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the Arizona Department of Health Services and the disbursement by the awardee whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. See also [2 CFR 200.302](#) Financial management. Except as noted elsewhere in this part, Federal agencies must require recipients to use only OMB-approved standard governmentwide information collection requests to request payment.

Standards governing the use of banks and other institutions as depositories of advance payments under Federal awards are as follows:

- ▶ The Arizona Department of Health Services must not require separate depository accounts for funds provided to an awardee or establish any eligibility requirements for depositories for funds provided to the awardee. However, the awardee must be able to account for the receipt, obligation and expenditure of funds.
- ▶ Advance payments of Federal funds must be deposited and maintained in insured accounts whenever possible. The awardee must maintain advance payments of Federal awards in interest-bearing accounts, unless the following apply:
  - The awardee receives less than \$120,000 in Federal awards per year.
  - The best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on Federal cash balances.
  - The depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.
  - A foreign government or banking system prohibits or precludes interest bearing accounts.

Interest earned amounts up to \$500 per year may be retained by the awardee for administrative expenses. Any additional interest earned on Federal advance payments deposited in interest-bearing accounts must be remitted annually to the Department of Health and Human Services Payment Management System (PMS) through an electronic medium using either Automated Clearing House (ACH) network or a Fedwire Funds Service payment. Remittances must include pertinent information of the payee and nature of payment in the memo area (often referred to as “addenda records” by Financial Institutions) as that will assist in the timely posting of interest earned on federal funds. Pertinent details include the Payee Account Number (PAN) if the payment originated from PMS, or Agency information if the payment originated from ASAP, NSF or another federal agency payment system.

### **The remittance must be submitted as follows:**

For ACH Returns: Routing Number: 051036706, Account number: 303000, Bank Name and Location: Credit Gateway—ACH Receiver St. Paul, MN

For Fedwire Returns\*: Routing Number: 021030004, Account number: 75010501, Bank Name and Location: Federal Reserve Bank Treasury NYC/Funds Transfer Division New York, NY

(\* Please note organization initiating payment is likely to incur a charge from your Financial Institution for this type of payment)

For International ACH Returns: Beneficiary Account: Federal Reserve Bank of New York/ITS (FRBNY/ITS), Bank: Citibank N.A. (New York) Swift Code: CITIUS33, Account Number: 36838868, Bank Address: 388 Greenwich Street, New York, NY 10013 USA, Payment Details (Line 70): Agency, Name (abbreviated when possible) and ALC Agency POC: Michelle Haney, (301) 492-5065,

For recipients that do not have electronic remittance capability, please make check\*\* payable to: “The Department of Health and Human Services.” Mail Check to Treasury approved lockbox, HHS Program Support Center, P.O. Box 530231, Atlanta, GA 30353-0231, (\*\* Please allow 4-6 weeks for processing of a payment by check to be applied to the appropriate PMS account)

Any additional information/instructions may be found on the PMS Web site at <https://pms.psc.gov/>

## **Cost sharing or matching**

For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the awardee's cost sharing or matching when such contributions meet all of the following criteria:

- ▶ Are verifiable from the awardee's records.
- ▶ Are not included as contributions for any other Federal award.

- ▶ Are necessary and reasonable for accomplishment of project or program objectives.
- ▶ Are allowable under Subpart E—Cost Principles of this part.
- ▶ Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs
- ▶ Are provided for in the approved budget when required by the Arizona Department of Health Services.
- ▶ Conform to other provisions of this part, as applicable.

Values for awardee contributions of services and property must be established in accordance with the cost principles in Subpart [E—Cost Principles](#).

### **Program income**

Non-Federal entities are encouraged to earn income to defray program costs where appropriate.

If authorized by Federal regulations or the Federal award, costs incidental to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the Federal award.

Taxes, special assessments, levies, fines, and other such revenues raised by an awardee are not program income unless the revenues are specifically identified in the Federal award or Arizona Department of Health Services contract terms as program income.

Proceeds from the sale of real property, equipment, or supplies are not program income. Such proceeds will be handled in accordance with the requirements of Subpart D—Post Federal Award Requirements, Property Standards [2 CFR 200.311](#) Real property, [2 CFR 200.313](#) Equipment, and [2 CFR 200.314](#) Supplies, or as specifically identified in Federal statutes, regulations, or the terms and conditions of the Federal award.

If the Arizona Department of Health Services does not specify in its regulations or the terms and conditions of the Federal award, or give prior approval for how program income is to be used, paragraph (a) of this section must apply. For Federal awards made to IHEs and nonprofit research institutions, if the Arizona Department of Health Services does not specify in its regulations or the terms and conditions of the Federal award how program income is to be used, paragraph (b) of this section must apply. In specifying alternatives to paragraphs (a) and (b) of this section, the Arizona Department of Health Services may distinguish between income earned by the recipient and income earned by subrecipients and between the sources, kinds, or amounts of income. When the Arizona Department of Health Services authorizes the approaches in paragraphs (b) and (c) of this section, program income in excess of any amounts specified must also be deducted from expenditures.

(a) Ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the Arizona Department of Health Services authorizes otherwise. Program income that the awardee did not anticipate at the time of the Federal award must be used to reduce the Federal award and awardee contributions rather than to increase the funds committed to the project.

(b) With prior approval of the Arizona Department of Health Services (except for IHEs and nonprofit research institutions, as described in this section) program income may be added to the Federal award by the Arizona Department of Health Services and the awardee. The program income must be used for the purposes and under the conditions of the Federal award.

(c) With prior approval of the Arizona Department of Health Services, program income may be used to meet the cost sharing or matching requirement of the Federal award. The amount of the Federal award remains the same.

There are no Federal requirements governing the disposition of income earned after the end of the period of performance for the Federal award, unless the Arizona Department of Health Services regulations or the terms and conditions of the Federal award provide otherwise. The Arizona Department of Health Services may negotiate agreements with awardees regarding appropriate uses of income earned after the period of performance as part of the grant closeout process. See also [2 CFR 200.343](#) Closeout.

Unless the Federal statute, regulations, or terms and conditions for the Federal award provide otherwise, the awardee has no obligation to the Arizona Department of Health Services with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions made under a Federal award to which [37 CFR part 401](#), “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Awards, Contracts and Cooperative Agreements” is applicable.

### **Revision of budget and program plans**

For non-construction Federal awards, recipients must request prior approvals from the Arizona Department of Health Services for one or more of the following program or budget-related reasons:

- ▶ Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval).
- ▶ Changes in key personnel specified in the application or the Federal award.
- ▶ The disengagement from the project for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.
- ▶ The inclusion, unless waived by the Federal Awarding Agency, of costs that require prior approval in accordance with Subpart E—Cost Principles or [45 CFR part 75 Appendix IX](#), “Principles for Determining Costs Applicable to Research and Development under Awards and Contracts with Hospitals,” or [48 CFR part 31](#), “Contract Cost Principles and Procedures,” as applicable.
- ▶ The transfer of funds budgeted for participant support costs as defined in [2 CFR 200.75](#) Participant support costs to other categories of expense.
- ▶ Unless described in the application and funded in the approved Federal awards, the subawarding, transferring or contracting out of any work under a Federal award, including fixed amount subawards as described in [2 CFR 200.332](#) Fixed amount subawards. This provision does not apply to the acquisition of supplies, material, equipment or general support services.
- ▶ Changes in the approved cost-sharing or matching provided by the awardee.
- ▶ The need arises for additional Federal funds to complete the project.

For construction Federal awards, the recipient must request prior written approval promptly from the Arizona Department of Health Services for budget revisions whenever any of the conditions of this section applies:

- ▶ The revision results from changes in the scope or the objective of the project or program.
- ▶ The need arises for additional Federal funds to complete the project.
- ▶ A revision is desired which involves specific costs for which prior written approval requirements may be imposed consistent with applicable OMB cost principles listed in Subpart E—Cost Principles.
- ▶ No other prior approval requirements for budget revisions may be imposed unless an exception has been approved by OMB.
- ▶ When the Arizona Department of Health Services makes a Federal award that provides support for construction and non-construction work, the Arizona Department of Health Services may require the recipient to obtain prior approval from the Arizona Department of Health Services before making any fund or budget transfers between the two types of work supported.

When requesting approval for budget revisions, the recipient must use the same format for budget information that was used in the application, unless the Arizona Department of Health Services indicates a letter of request suffices.

Within 30 calendar days from the date of receipt of the request for budget revisions, the Arizona Department of Health Services must review the request and notify the recipient whether the budget revisions have been approved. If the revision is still under consideration at the end of 30 calendar days, the Arizona Department of Health Services must inform the recipient in writing of the date when the recipient may expect the decision.

### **Period of performance**

A awardee may charge to the Federal award only allowable costs incurred during the period of performance (except as described in [2 CFR 200.461](#) Publication and printing costs) and any costs incurred before the Arizona Department of Health Services made the Federal award that were authorized by the Arizona Department of Health Services.

## **PROPERTY STANDARDS**

### **Insurance coverage**

### **Real property**

### **Federally-owned and exempt property**

### **Equipment**

### **Supplies**

### **Intangible property**

### **Property trust relationship**

## **Chapter 5**

### **Performance and Financial Monitoring and Reporting**

#### **Financial reporting**

Unless otherwise approved by OMB, the Arizona Department of Health Services may solicit only the standard, OMB-approved governmentwide data elements for collection of financial information (at time of publication the Federal Financial Report (FFR) or such future collections as may be approved by OMB and listed on the OMB Web site). This information must be collected with the frequency required by the terms and conditions of the Federal award.

#### **Monitoring and reporting program performance**

The awardee is responsible for oversight of the operations of the Federal award supported activities. The awardee must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the awardee must cover each program, function or activity. See also [2 CFR 200.331](#) Requirements for pass-through entities.

The awardee must submit performance reports at the interval required by the Arizona Department of Health Services to best inform improvements in program outcomes and productivity. Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances. Annual reports must be due 90 calendar days after the reporting period and quarterly or semiannual reports must be due 30 calendar days after the reporting period. Alternatively, the Arizona Department of Health Services may require annual reports before the anniversary dates of multiple year Federal awards. The final performance report will be due 90 calendar days after the period of performance end date. If a justified request is submitted by an awardee, the Arizona Department of Health Services may extend the due date for any performance report. The awardee must submit performance reports using OMB-approved government wide standard information collections when providing performance information. These reports will contain, for each Federal award, brief information on the following unless other collections are approved by OMB:

A comparison of actual accomplishments to the objectives of the Federal award established for the period. Where the accomplishments of the Federal award can be quantified, a computation of the cost (for example, related to units of accomplishment) may be required if that information will be useful. Where performance trend data and analysis would be informative to the Arizona Department of Health Services program, the Arizona Department of Health Services should include this as a performance reporting requirement.

- ▶ The reasons why established goals were not met, if appropriate.
- ▶ Additional pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

For the most part, onsite technical inspections and certified percentage of completion data are relied on heavily by the Arizona Department of Health Services to monitor progress under Federal awards and subawards for construction. The Arizona Department of Health Services may require additional performance reports only when considered necessary.

The awardee must inform the Arizona Department of Health Services as soon as the following types of conditions become known:

- ▶ Problems, delays, or adverse conditions which will materially impair the ability to meet the objective of the Federal award. This disclosure must include a statement of the action taken, or contemplated, and any assistance needed to resolve the situation.
- ▶ Favorable developments which enable meeting time schedules and objectives sooner or at less cost than anticipated or producing more or different beneficial results than originally planned.
- ▶ The Arizona Department of Health Services may make site visits as warranted by program needs.
- ▶ The Arizona Department of Health Services may waive any performance report required by this part if not needed.

#### **Reporting on real property**

The Arizona Department of Health Services must require an awardee to submit reports at least annually on the status of real property in which the Federal Government retains an interest, unless the Federal interest in the real property extends 15 years or longer.



## **Chapter 6**

### **Awardee Monitoring and Management, Record Retention and Access and Remedies for Non-compliance**

#### **Awardee and contractor determinations**

The awardee may concurrently receive Federal awards as a recipient, an awardee, and a contractor/vendor, depending on the substance of its agreements with the Arizona Department of Health Services. Therefore, the Arizona Department of Health Services must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of an awardee/recipient or a contractor/vendor.

**Awardee/Recipient** - A subaward is for the purpose of carrying out a portion of a Federal award and creates a **Federal assistance relationship** with the awardee/recipient. See [2 CFR 200.92](#) Subaward. Characteristics which support the classification of the awardee/recipient as an awardee/recipient include when the awardee/recipient:

- ▶ Determines who is eligible to receive what Federal assistance.
- ▶ Has its performance measured in relation to whether objectives of a Federal program were met.
- ▶ Has responsibility for programmatic decision making.
- ▶ Is responsible for adherence to applicable Federal program requirements specified in the Federal award.
- ▶ In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the Arizona Department of Health Services.

**Contractor/Vendor** - A contract is for the purpose of obtaining goods and services for the awardee's/recipient's own use and **creates a procurement relationship** with the contractor/vendor. See [2 CFR 200.22](#) Contract. Characteristics indicative of a procurement relationship between the awardee/recipient and a contractor/vendor are when the contractor/vendor:

- ▶ Provides the goods and services within normal business operations.
- ▶ Provides similar goods or services to many different purchasers.
- ▶ Normally operates in a competitive environment.
- ▶ Provides goods or services that are ancillary to the operation of the Federal program.
- ▶ Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons.

In determining whether an agreement between the Arizona Department of Health Services and another awardee/pass-through entity/subrecipient casts the latter as an awardee or a contractor/vendor, **the substance of the relationship is more important than the form of the agreement**. All of the characteristics listed above may not be present in all cases, and the Arizona Department of Health Services must use judgment in classifying each agreement as a subaward or a procurement contract.

#### **Requirements for pass-through entities**

All awardees:

Ensure that every subaward is clearly identified to the awardee as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the Arizona Department of Health Services must provide the best information available to describe the Federal award and subaward. Required information includes:

- ▶ Federal Award Identification.
- ▶ Awardee name (which must match the name associated with its unique entity identifier);
- ▶ Awardee unique entity identifier; (i.e. EIN, DUNS etc...)
- ▶ Federal Award Identification Number (FAIN);
- ▶ Federal Award Date (see [2 CFR 200.39](#) Federal award date) of award to the awardee by the Federal agency.
- ▶ Awardee Period of Performance Start and End Date.
- ▶ Amount of Federal Funds Obligated by this action by the Arizona Department of Health Services to the awardee.
- ▶ Total Amount of Federal Funds Obligated to the awardee by the Arizona Department of Health Services including the current obligation.
- ▶ Total Amount of the Federal Award committed to the awardee by the Arizona Department of Health Services.
- ▶ Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA).

- ▶ Name of Federal awarding agency, Arizona Department of Health Services, and contact information for awarding official of the Arizona Department of Health Services.
- ▶ The Arizona Department of Health Services must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement.
- ▶ Identification of whether the award is R&D.
- ▶ Indirect cost rate for the Federal award (including if the de minimis rate is charged per [2 CFR 200.414](#) Indirect (F&A) costs).
- ▶ All requirements imposed by the Arizona Department of Health Services on the awardee so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.
- ▶ Any additional requirements that the Arizona Department of Health Services imposes on the awardee in order for the Arizona Department of Health Services to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports.
- ▶ An approved federally recognized indirect cost rate negotiated between the awardee and the Federal Government or, if no such rate exists, either a rate negotiated between the Arizona Department of Health Services and the awardee (in compliance with this part), or a de minimis indirect cost rate as defined in [2 CFR 200.414](#) Indirect (F&A) costs.
- ▶ A requirement that the awardee permit the Arizona Department of Health Services Office of Auditing to have access to the subrecipient's records and financial statements as necessary for the Arizona Department of Health Services to meet the requirements of this part.
- ▶ Appropriate terms and conditions concerning closeout of the subaward.

Evaluate each awardee's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate awardee monitoring described in this section, which may include consideration of such factors as:

- The awardee's prior experience with the same or similar subawards
- The results of previous audits including whether or not the awardee receives a Single Audit in accordance with Subpart F—Audit Requirements, and the extent to which the same or similar subawards have been audited as a major program.
- Whether the awardee has new personnel or new or substantially changed systems.
- The extent and results of Arizona Department of Health Services monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- Consider imposing specific subaward conditions upon an awardee if appropriate as described in [2 CFR 200.207](#) Specific conditions.
- Monitor the activities of the awardee as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Arizona Department of Health Services monitoring of the awardee **must** include:

- ▶ Reviewing financial and performance reports.
- ▶ Following-up and ensuring that the awardee takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the awardee from the Arizona Department of Health Services detected through audits, on-site reviews, and other means.
- ▶ Issuing a management decision for audit findings pertaining to the Federal award provided to the awardee from the Arizona Department of Health Services as required by [2 CFR 200.521](#) Management decision.
- ▶ Depending upon the Arizona Department of Health Services assessment of risk posed by the awardee, the following monitoring tools may be useful for the Arizona Department of Health Services to ensure proper accountability and compliance with program requirements and achievement of performance goals:
  - Providing awardees with training and technical assistance on program-related matters.
  - Performing on-site reviews of the awardee's program operations.
  - Arranging for agreed-upon-procedures and engagements as described in [2 CFR 200.425](#) Audit services.
- ▶ Verify that every awardee is audited as required by Subpart F—Audit Requirements when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in [2 CFR 200.501](#) (currently \$750,000) Audit requirements.
- ▶ Consider whether the results of the awardee's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the Arizona Department of Health Services own records.
- ▶ Consider taking enforcement action against noncompliant awardees as described in [2 CFR 200.338](#) Remedies for noncompliance of this part and in program regulations.

### **Fixed amount sub-awards**

With prior written approval from the Arizona Department of Health Services, the Arizona Department of Health Services may provide subawards based on fixed amounts up to the Simplified Acquisition Threshold, provided that the subawards meet the requirements for fixed amount awards in [2 CFR 200.201](#). Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts.

### **Retention requirements for records**

### **Requests for transfer of records**

### **Methods for collection, transmission and storage of information**

### **Access to records**

### **Restrictions on public access to records**

### **Remedies for Noncompliance**

### **Termination**

### **Notification of termination requirement**

### **Opportunities to object, hearings and appeals**

### **Effects of suspension and termination**



## **Chapter 7**

### **Closeout, Post-Closeout Adjustments, Continuing Responsibilities and Collection of Amounts Due**

#### **Closeout**

The Arizona Department of Health Services will close-out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the awardee. This section specifies the actions the awardee and Arizona Department of Health Services must take to complete this process at the end of the period of performance. The awardee must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the Federal award. The Arizona Department of Health Services may approve extensions when requested by the awardee.

Unless the Arizona Department of Health Services authorizes an extension, an awardee must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award. The Arizona Department of Health Services must make prompt payments to the awardee for allowable reimbursable costs under the Federal award being closed out.

The awardee must promptly refund any balances of unobligated cash that the Arizona Department of Health Services paid in advance or paid and that are not authorized to be retained by the awardee for use in other projects. See [OMB Circular A-129](#) and see [2 CFR 200.345](#) Collection of amounts due, for requirements regarding unreturned amounts that become delinquent debts.

Consistent with the terms and conditions of the Federal award, the Arizona Department of Health Services must make a settlement for any upward or downward adjustments to the Federal share of costs after closeout reports are received.

The awardee must account for any real and personal property acquired with Federal funds or received from the Federal Government in accordance with [2 CFR 200.310](#) Insurance coverage through [2 CFR 200.316](#) Property trust relationship and [2 CFR 200.329](#) Reporting on real property.

The Arizona Department of Health Services should complete all closeout actions for Federal awards no later than one year after receipt and acceptance of all required final reports.

#### **Post-closeout adjustments and continuing responsibilities**

The closeout of a Federal award does not affect any of the following:

- ▶ The right of the Arizona Department of Health Services to disallow costs and recover funds on the basis of a later audit or other review. The Arizona Department of Health Services must make any cost disallowance determination and notify the awardee within the record retention period.
- ▶ The obligation of the awardee to return any funds due as a result of later refunds, corrections, or other transactions including final indirect cost rate adjustments.
- ▶ Audit requirements in Subpart F—Audit Requirements.
- ▶ Property management and disposition requirements in Subpart D—Post Federal Award Requirements, [2 CFR 200.310](#) Insurance Coverage through [2 CFR 200.316](#) Property trust relationship.
- ▶ Records retention as required in Subpart D—Post Federal Award Requirements, [2 CFR 200.333](#) Retention requirements for records through [2 CFR 200.337](#) Restrictions on public access to records.

After closeout of the Federal award, a relationship created under the Federal award may be modified or ended in whole or in part with the consent of the Arizona Department of Health Services and the awardee, provided the responsibilities of the awardee referred to in this section, including those for property management as applicable, are considered and provisions made for continuing responsibilities of the awardee, as appropriate.

#### **Collection of amounts due**

Any funds paid to the awardee in excess of the amount to which the awardee is finally determined to be entitled under the terms of the Federal award constitute a debt to the Federal Government. If not paid within 90 calendar days after demand, the Federal awarding agency may reduce the debt by:

- ▶ Making an administrative offset against other requests for reimbursements.
- ▶ Withholding advance payments otherwise due to the awardee or other action permitted by Federal statute.

Except where otherwise provided by statutes or regulations, the Arizona Department of Health Services will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards [31 CFR parts 900 through 999](#). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

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## Chapter 8

### **Cost Principles, Basic Considerations, Direct and Indirect Costs**

#### **Policy guide**

The application of these cost principles is based on the fundamental premises that:

- ▶ The awardee is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.
- ▶ The awardee assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.
- ▶ The awardee, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.
- ▶ The application of these cost principles should require no significant changes in the internal accounting policies and practices of the awardee. However, the accounting practices of the awardee must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award.
- ▶ In reviewing, negotiating and approving cost allocation plans or indirect cost proposals, the cognizant agency for indirect costs should generally assure that the awardee is applying these cost accounting principles on a consistent basis during their review and negotiation of indirect cost proposals. Where wide variations exist in the treatment of a given cost item by the awardee, the reasonableness and equity of such treatments should be fully considered. See [2 CFR 200.56](#) Indirect (facilities & administrative (F&A)) costs.
- ▶ For non-Federal entities that educate and engage students in research, the dual role of students as both trainees and employees (including pre- and post-doctoral staff) contributing to the completion of Federal awards for research must be recognized in the application of these principles.
- ▶ The awardee may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the Federal award. See also [2 CFR 200.307](#) Program income.

#### **Application**

These principles must be used in determining the allowable costs of work performed by the awardee under Federal awards. These principles also must be used by the awardee as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price. The principles **do not** apply to:

- ▶ Arrangements under which Federal financing is in the form of loans, scholarships, fellowships, traineeships, or other fixed amounts based on such items as education allowance or published tuition rates and fees.
- ▶ For IHEs, capitation awards, which are awards based on case counts or number of beneficiaries according to the terms and conditions of the Federal award.
- ▶ Fixed amount awards. See also Subpart A—Acronyms and Definitions, [2 CFR 200.45](#) Fixed amount awards and [2 CFR 200.201](#) Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts.
- ▶ Federal awards to hospitals (see [Appendix IX to Part 200](#)—Hospital Cost Principles).
- ▶ Other awards under which the awardee is not required to account to the Federal Government for actual costs incurred.

Where a Federal contract awarded to a awardee is subject to the Cost Accounting Standards (CAS), it incorporates the applicable CAS clauses, Standards, and CAS administration requirements per the [48 CFR Chapter 99](#) and [48 CFR part 30](#). [FAR Part 30](#), CAS applies directly to the CAS-covered contract and the Cost Accounting Standards at [48 CFR parts 9904 or 9905](#) takes precedence over the cost principles in this Subpart E—Cost Principles of this part with respect to the allocation of costs. When a contract with an awardee is subject to full CAS coverage, the allowability of certain costs under the cost principles will be affected by the allocation provisions of the Cost Accounting Standards (e.g., CAS 414—[48 CFR 9904.414](#), Cost of Money as an Element of the Cost of Facilities Capital, and CAS 417—[48 CFR 9904.417](#), Cost of Money as an Element of the Cost of Capital Assets Under Construction), apply rather the allow ability provisions of [2 CFR 200.449](#) Interest. In complying with those requirements, the awardee's application of cost accounting practices for estimating, accumulating, and reporting costs for other Federal awards and other cost objectives under the CAS-covered contract still must be consistent with its cost accounting practices for the CAS-covered contracts. In all cases, only one set of accounting records needs to be maintained for the allocation of costs by the awardee.

Some nonprofit organizations, because of their size and nature of operations, can be considered to be similar to for-profit entities for purposes of applicability of cost principles. Such nonprofit organizations must operate under Federal cost principles applicable to for-profit entities located at [48 CFR 31.2](#). A listing of these organizations is contained in [Appendix VIII to Part 200](#)—Nonprofit Organizations Exempted From [Subpart E—Cost Principles](#). Other organizations, as approved by the cognizant agency for indirect costs, may be added from time to time.

## **Basic Considerations**

### **Composition of costs**

Total cost. The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

### **Factors affecting allowability of costs**

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- ▶ Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- ▶ Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- ▶ Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the awardee.
- ▶ Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- ▶ Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- ▶ Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also [2 CFR 200.306](#) Cost sharing or matching.

Be adequately documented. See also [2 CFR 200.300](#) Statutory and national policy requirements through [2 CFR 200.309](#) Period of performance.

### **Reasonable costs**

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the awardee is predominantly federally-funded.

In determining reasonableness of a given cost, consideration must be given to:

- ▶ Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the awardee or the proper and efficient performance of the Federal award.
- ▶ The restraints or requirements imposed by such factors as: sound business practices, arm's-length bargaining, Federal, state, local, tribal, and other laws and regulations, and terms and conditions of the Federal award.
- ▶ Market prices for comparable goods or services for the geographic area.
- ▶ Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the awardee, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- ▶ Whether the awardee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

### **Allocable costs**

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.

This standard is met if the cost:

- ▶ Is incurred specifically for the Federal award.
- ▶ Benefits both the Federal award and other work of the awardee and can be distributed in proportions that may be approximated using reasonable methods.
- ▶ Is necessary to the overall operation of the awardee and is assignable in part to the Federal award in accordance with the principles in this subpart.

All activities which benefit from the awardee's indirect (F&A) cost, including unallowable activities and donated services by the awardee or third parties, will receive an appropriate allocation of indirect costs.

Any cost allocable to a particular Federal award under the principles in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards. However, this prohibition would not preclude the awardee from shifting costs that

are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

### **Direct cost allocation principles**

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also [2 CFR 200.310](#) Insurance coverage through property trust relationship and [2 CFR 200.439](#) Equipment and other capital expenditures.

If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

### **Applicable credits**

Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the awardee relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

In some instances, the amounts received from the Federal Government to finance activities or service operations of the awardee should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) must be recognized in determining the rates or amounts to be charged to the Federal award. (See [2 CFR 200.436](#) Depreciation and [2 CFR 200.468](#) Specialized service facilities, for areas of potential application in the matter of Federal financing of activities.)

### **Prior written approval (prior approval)**

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the awardee may seek the prior written approval of the cognizant agency for indirect costs or the Arizona Department of Health Services in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the sections of this part:

[2 CFR 200.201](#) Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, Cost sharing or matching; Program income, [2 CFR 200.308](#) Revision of budget and program plans, [2 CFR 200.311](#) Real property, [2 CFR 200.313](#) Equipment, [2 CFR 200.332](#) Fixed amount subawards, [2 CFR 200.413](#) Direct costs, [2 CFR 200.430](#) Compensation—personal services, [2 CFR 200.431](#) Compensation—fringe benefits, [2 CFR 200.438](#) Entertainment costs, [2 CFR 200.439](#) Equipment and other capital expenditures, [2 CFR 200.440](#) Exchange rates, [2 CFR 200.441](#) Fines, penalties, damages and other settlements, [2 CFR 200.442](#) Fund raising and investment management costs; [2 CFR 200.445](#) Goods or services for personal use; [2 CFR 200.447](#) Insurance and indemnification, [2 CFR 200.454](#) Memberships, subscriptions, and professional activity costs, paragraph, [2 CFR 200.455](#) Organization costs, [2 CFR 200.456](#) Participant support costs, [2 CFR 200.458](#) Pre-award costs, [2 CFR 200.462](#) Rearrangement and reconversion costs, [2 CFR 200.467](#) Selling and marketing costs, [2 CFR 200.470](#) Taxes (including Value Added Tax); and [2 CFR 200.474](#) Travel costs.

### **Limitation on allowance of costs**

The Federal award may be subject to statutory requirements that limit the allowability of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this part, the amount not recoverable under the Federal award may not be charged to the Federal award.

## **Special considerations**

In addition to the basic considerations regarding the allowability of costs highlighted in this part describe special considerations and requirements applicable to states, local governments, Indian tribes, and IHEs. In addition, certain provisions among the items of cost are only applicable to certain types of non-Federal entities, as specified in the following sections:

Direct and Indirect (F&A) Costs ([2 CFR 200.412](#) Classification of costs through [2 CFR 200.415](#) Required certifications).

Special Considerations for States, Local Governments and Indian Tribes ([2 CFR 200.416](#) Cost allocation plans and indirect cost proposals and [2 CFR 200.417](#) Interagency service).

Special Considerations for Institutions of Higher Education ([2 CFR 200.418](#) Costs incurred by states and local governments and [2 CFR 200.419](#) Cost accounting standards and disclosure statement).

## **Collection of unallowable costs**

Payments made for costs determined to be unallowable by either the Arizona Department of Health Services or cognizant agency for indirect costs, either as direct or indirect costs, must be refunded (including interest) to the Federal Government in accordance with instructions from the entity that determined the costs are unallowable unless Federal statute or regulation directs otherwise. See also Subpart D—Post Federal Award Requirements, [2 CFR 200.300](#) Statutory and national policy requirements through [2 CFR 200.309](#) Period of performance.

## **Adjustment of previously negotiated indirect (F&A) cost rates containing unallowable costs**

Negotiated indirect (F&A) cost rates based on a proposal later found to have included costs that:

Are unallowable as specified by Federal statutes, regulations or the terms and conditions of a Federal award; or

Are unallowable because they are not allocable to the Federal award(s), must be adjusted, or a refund must be made. These adjustments or refunds are designed to correct the proposals used to establish the rates and do not constitute a reopening of the rate negotiation. The adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

For rates covering a future fiscal year of the awardee, the unallowable costs will be removed from the indirect (F&A) cost pools and the rates appropriately adjusted.

For rates covering a past period, the Federal share of the unallowable costs will be computed for each year involved and a cash refund (including interest chargeable in accordance with applicable regulations) will be made to the Federal Government. If cash refunds are made for past periods covered by provisional or fixed rates, appropriate adjustments will be made when the rates are finalized to avoid duplicate recovery of the unallowable costs by the Federal Government.

For rates covering the current period, either a rate adjustment or a refund must be required by the cognizant agency for indirect costs. The choice of method must be at the discretion of the cognizant agency for indirect costs, based on its judgment as to which method would be most practical.

The amount or proportion of unallowable costs included in each year's rate will be assumed to be the same as the amount or proportion of unallowable costs included in the base year proposal used to establish the rate.

## **DIRECT AND INDIRECT (F&A) COSTS**

### **Classification of costs**

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards. Guidelines for determining direct and indirect (F&A) costs charged to Federal awards are provided in this subpart.



## **Direct costs**

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. See also [2 CFR 200.405](#) Allocable costs.

**Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards.** Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.

The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

- ▶ Administrative or clerical services are integral to a project or activity.
- ▶ Individuals involved can be specifically identified with the project or activity.
- ▶ Such costs are explicitly included in the budget or have the prior written approval of the Arizona Department of Health Services.
- ▶ The costs are not also recovered as indirect costs.

Any direct cost of minor amount may be treated as an indirect (F&A) cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all Federal and non-Federal cost objectives.

The costs of certain activities are not allowable as charges to Federal awards. However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect (F&A) cost rates and be allocated their equitable share of the awardee's indirect costs if they represent activities which:

- ▶ Include the salaries of personnel.
- ▶ Occupy space.
- ▶ Benefit from the awardee's indirect (F&A) costs.

For nonprofit organizations, the costs of activities performed by the awardee primarily as a service to members, clients, or the general public when significant and necessary to the awardee's mission must be treated as direct costs whether or not allowable, and be allocated an equitable share of indirect (F&A) costs. Some examples of these types of activities include:

- ▶ Maintenance of membership roles, subscriptions, publications, and related functions. See also [2 CFR 200.454](#) Memberships, subscriptions, and professional activity costs.
- ▶ Providing services and information to members, legislative or administrative bodies, or the public. See also [2 CFR 200.454](#) Memberships, subscriptions, and professional activity costs and [2 CFR 200.450](#) Lobbying.
- ▶ Promotion, lobbying, and other forms of public relations. See also [2 CFR 200.421](#) Advertising and public relations and [2 CFR 200.450](#) Lobbying.
- ▶ Conferences except those held to conduct the general administration of the awardee. See also [2 CFR 200.432](#) Conferences.
- ▶ Maintenance, protection, and investment of special funds not used in operation of the awardee. See also [2 CFR 200.442](#) Fund raising and investment management costs.
- ▶ Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid. See also [2 CFR 200.431](#) Compensation—fringe benefits.

## **Indirect (F&A) costs**

For major IHEs and major nonprofit organizations, indirect (F&A) costs must be classified within two broad categories: "Facilities" and "Administration." "Facilities" is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. "Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable). For nonprofit organizations, library expenses are included in the "Administration" category. Institutions of higher education, they are included in the "Facilities" category. Major IHEs are defined as those required to use the Standard Format for Submission as noted in [Appendix III to Part 200](#)—Indirect (F&A) Costs Identification and Assignment, and Rate

Determination for Institutions of Higher Education (IHEs). Major nonprofit organizations are those which receive more than \$10 million dollars in direct Federal funding.

**Diversity of nonprofit organizations.** Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost which may be classified as indirect (F&A) cost in all situations. **Identification with a Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards.** However, typical examples of indirect (F&A) cost for many nonprofit organizations may include depreciation on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.

**Federal Agency Acceptance of Negotiated Indirect Cost Rates.** (See also [2 CFR 200.306](#) Cost sharing or matching.)

The negotiated rates must be accepted by the Arizona Department of Health Services. The Arizona Department of Health Services may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when required by Federal statute or regulation, or when approved by the Arizona Department of Health Services agency head or delegate based on documented justification.

The Arizona Department of Health Services must notify OMB of any approved deviations.

The Arizona Department of Health Services must implement, and make publicly available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.

As required under [2 CFR 200.203](#) Notices of Funding Opportunities, the Arizona Department of Health Services must include in the notice of funding opportunity the policies relating to indirect cost rate reimbursement, matching, or cost share. As appropriate, the Federal agency should incorporate discussion of these policies into Arizona Department of Health Services outreach activities with non-Federal entities prior to the posting of a notice of funding opportunity.

The Arizona Department of Health Services is subject to the requirements in [2 CFR 200.331](#) Requirements for pass-through entities.

Requirements for development and submission of indirect (F&A) cost rate proposals and cost allocation plans are contained in Appendices III-VII and Appendix IX as follows:

[Appendix III to Part 200](#)—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)

[Appendix IV to Part 200](#)—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations

[Appendix V to Part 200](#)—State/Local Government wide Central Service Cost Allocation Plans

[Appendix VI to Part 200](#)—Public Assistance Cost Allocation Plans

[Appendix VII to Part 200](#)—States and Local Government and Indian Tribe Indirect Cost Proposals

[Appendix IX to Part 200](#)—Hospital Cost Principles

In addition to the procedures outlined in the appendices, any awardee that has never received a negotiated indirect cost rate, except for those non-Federal entities described in [Appendix VII to Part 200](#)—States and Local Government and Indian Tribe Indirect Cost Proposals, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. As described in [2 CFR 200.403](#) Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as an awardee chooses to negotiate for a rate, which the awardee may apply to do at any time.

Any awardee that has a current federally negotiated indirect cost rate may apply for a one-time extension of the rate(s) in that agreement for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is granted the awardee may not request a rate review until the extension period ends. At the end of the 4-year extension, the awardee must re-apply to negotiate a rate. Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request.



[Required certifications](#)

[Special Considerations for States, Local Governments and Indian Tribes](#)

[Cost allocation plans and indirect cost proposals](#)

[Interagency service](#)

[SPECIAL CONSIDERATIONS FOR INSTITUTIONS OF HIGHER EDUCATION](#)

[Cost accounting standards and disclosure statement](#)

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## **Chapter 9**

### **General Provisions for Select Items of Cost**

#### **Considerations for selected items of cost**

These principles apply whether or not a particular item of cost is properly treated as direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost, and based on the principles described in [2 CFR 200.402](#) Composition of costs through [2 CFR 200.411](#) adjustment of previously negotiated indirect (F&A) cost rates containing unallowable costs. In case of a discrepancy between the provisions of a specific Federal award and the provisions below, the Federal award governs. Criteria outlined in [2 CFR 200.403](#) Factors affecting allowability of costs must be applied in determining allowability. See also [2 CFR 200.102](#) Exceptions.

[Advertising and Public Relations](#)

[Advisory councils](#)

[Alcoholic beverages](#)

[Alumni/ae activities](#)

[Audit services](#)

[Bad debts](#)

[Bonding costs](#)

[Collections of improper payments](#)

[Commencement and convocation costs](#)

[Compensation—personal services](#)

[Compensation—fringe benefits](#)

[Conferences](#)

[Contingency provisions](#)

[Contributions and donations](#)

[Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements](#)

[Depreciation](#)

[Employee health and welfare costs](#)

[Equipment and other capital expenditures](#)

[Exchange rates](#)

[Fines, penalties, damages and other settlements](#)

[Fund raising and investment management costs](#)

[Gains and losses on disposition of depreciable assets](#)

[General costs of government](#)

[Goods or services for personal use](#)

[Idle facilities and idle capacity](#)

[Insurance and indemnification](#)

[Intellectual property](#)

[Interest](#)

[Lobbying](#)

[Losses on other awards or contracts](#)

[Maintenance and repair costs](#)

[Materials and supplies costs, including costs of computing devices](#)

[Memberships, subscriptions, and professional activity costs](#)

[Organization costs](#)

[Participant support costs](#)

[Plant and security costs](#)

[Pre-award costs](#)

[Professional service costs](#)

[Proposal costs](#)

[Publication and printing costs](#)

[Rearrangement and reconversion costs](#)

[Recruiting costs](#)

[Relocation costs of employees](#)

[Rental costs of real property and equipment](#)

[Scholarships and student aid costs](#)

[Selling and marketing costs](#)

[Specialized service facilities](#)

Student activity costs

Taxes (including Value Added Tax)

Termination costs

Training and education costs

Transportation costs

Travel costs

Trustees

DRAFT

## **Chapter 10**

### **Audit Requirements, General, Audits, Auditees**

#### **General**

This section sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

#### **Audits**

##### **Audit requirements -**

- ▶ An awardee that expends \$750,000 or more during the awardee's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.
- ▶ An awardee that expends \$750,000 or more during the awardee's fiscal year in Federal awards must have a single audit conducted in accordance with [2 CFR 200.514](#) Scope of audit except when it elects to have a program-specific audit conducted in accordance with this section.
- ▶ When an auditee expends Federal awards under only one Federal program (excluding R&D) and the Federal program's statutes, regulations, or the terms and conditions of the Federal award do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with [2 CFR 200.507](#) Program-specific audits. A program-specific audit may not be elected for R&D, unless all of the Federal awards expended were received from the same Federal agency, or the same Federal agency and the same pass-through entity, and that Federal agency, or the Arizona Department of Health Services in the case of an awardee, approves in advance a program-specific audit.
- ▶ A awardee that expends less than \$750,000 during the awardee's fiscal year in Federal awards is exempt from Federal audit requirements for that year, except as noted in [2 CFR 200.503](#) Relation to other audit requirements, but records must be available for review or audit by appropriate officials of the Federal agency, Arizona Department of Health Services, and Government Accountability Office (GAO).
- ▶ Management of an auditee that owns or operates a FFRDC (Federally Funded Research and Development Center) may elect to treat the FFRDC as a separate entity for purposes of this part.
- ▶ An auditee may simultaneously be an [auditee/awardee](#), a recipient, and a [contractor/vendor](#). Federal awards expended as an awardee are subject to audit under this part. The payments received for goods or services provided as a contractor are not Federal awards.
- ▶ In most cases, the auditee's compliance responsibility for contractors is only to ensure that the procurement, receipt, and payment for goods and services comply with Federal statutes, regulations, and the terms and conditions of Federal awards. Federal award compliance requirements normally do not apply to contractors. However, the awardee is responsible for ensuring compliance for procurement transactions which are structured such that the contractor is responsible for program compliance or the contractor's records must be reviewed to determine program compliance. Also, when these procurement transactions relate to a major program, the scope of the audit must include determining whether these transactions are in compliance with Federal statutes, regulations, and the terms and conditions of Federal awards.
- ▶ Since this part does not apply to for-profit awardees, the Arizona Department of Health Services is responsible for establishing requirements, as necessary, to ensure compliance by for-profit awardees. The agreement with the for-profit awardee must describe applicable compliance requirements and the for-profit awardees compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit awardees may include pre-award audits, monitoring during the agreement, and post-award audits. See also [2 CFR 200.331](#) Requirements for pass-through entities.

##### **Basis for determining Federal awards expended**

**Determining Federal awards Expended.** The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the awardee to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, contracts with Indian Tribes, cooperative agreements, and direct appropriations, the disbursement of funds to awardee, the use of loan proceeds under loan and loan guarantee programs, the receipt of property, the receipt of

surplus property, the receipt or use of program income, the distribution or use of food commodities, the disbursement of amounts entitling the awardee to an interest subsidy, and the period when insurance is in force.

**Loan and loan guarantees (loans).** Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of Federal awards expended under loan programs:

- ▶ Value of new loans made or received during the audit period.
- ▶ Beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus
- ▶ Any interest subsidy, cash, or administrative cost allowance received.

**Loan and loan guarantees (loans) at IHEs.** When loans are made to students of an IHE but the IHE does not make the loans, then only the value of loans made during the audit period must be considered Federal awards expended in that audit period. The balance of loans for previous audit periods is not included as Federal awards expended because the lender accounts for the prior balances.

**Prior loan and loan guarantees (loans).** Loans, the proceeds of which were received and expended in prior years, are not considered Federal awards expended under this part when the Federal statutes, regulations, and the terms and conditions of Federal awards pertaining to such loans impose no continuing compliance requirements other than to repay the loans.

**Endowment funds.** The cumulative balance of Federal awards for endowment funds that are federally restricted are considered Federal awards expended in each audit period in which the funds are still restricted.

**Free rent.** Free rent received by itself is not considered a Federal award expended under this part. However, free rent received as part of a Federal award to carry out a Federal program must be included in determining Federal awards expended and subject to audit under this part.

**Valuing non-cash assistance.** Federal non-cash assistance, such as free rent, food commodities, donated property, or donated surplus property, must be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency.

**Medicare.** Medicare payments to an awardee for providing patient care services to Medicare-eligible individuals are not considered Federal awards expended under this part.

**Medicaid.** Medicaid payments to a subrecipient for providing patient care services to Medicaid-eligible individuals are not considered Federal awards expended under this part unless a state requires the funds to be treated as Federal awards expended because reimbursement is on a cost-reimbursement basis.

**Certain loans provided by the National Credit Union Administration.** For purposes of this part, loans made from the National Credit Union Share Insurance Fund and the Central Liquidity Facility that are funded by contributions from insured non-Federal entities are not considered Federal awards expended.

#### [Relation to other audit requirements](#)

#### **Frequency of audits**

Except for the provisions for biennial audits of this section, audits required by this part must be performed annually. Any biennial audit must cover both years within the biennial period.

A state, local government, or Indian tribe that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits pursuant to this part biennially. This requirement must still be in effect for the biennial period. Any nonprofit organization that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits pursuant to this part biennially.

## **Sanctions**

In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and the Arizona Department of Health Services must take appropriate action as provided in [2 CFR 200.338](#) Remedies for noncompliance.

## **Audit costs**

See [2 CFR 200.425](#) Audit services.

## **Program-specific audits**

**Program-specific audit guide available.** In many cases, a program-specific audit guide will be available to provide specific guidance to the auditor with respect to internal controls, compliance requirements, suggested audit procedures, and audit reporting requirements. A listing of current program-specific audit guides can be found in the [compliance supplement](#) beginning with the 2014 supplement including Federal awarding agency contact information and a Web site where a copy of the guide can be obtained. When a current program-specific audit guide is available, the auditor must follow GAGAS and the guide when performing a program-specific audit.

**Program-specific audit guide not available.** When a current program-specific audit guide is not available, the auditee and auditor must have basically the same responsibilities for the Federal program as they would have for an audit of a major program in a single audit. The auditee must prepare the financial statement(s) for the Federal program that includes, at a minimum, a schedule of expenditures of Federal awards for the program and notes that describe the significant accounting policies used in preparing the schedule, a summary schedule of prior audit findings consistent with the requirements of [2 CFR 200.511](#) Audit findings follow-up, and a corrective action plan consistent with the requirements of [2 CFR 200.511](#) Audit findings follow-up.

## **The auditor must:**

- ▶ Perform an audit of the financial statement(s) for the Federal program in accordance with GAGAS.
- ▶ Obtain an understanding of internal controls and perform tests of internal controls over the Federal program consistent with the requirements of [2 CFR 200.514](#) Scope of audit for a major program.
- ▶ Perform procedures to determine whether the auditee has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that could have a direct and material effect on the Federal program consistent with the requirements of [2 CFR 200.514](#) Scope of audit for a major program.
- ▶ Follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with the requirements of [2 CFR 200.511](#) Audit findings follow-up, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding; and
- ▶ Report any audit findings consistent with the requirements of [2 CFR 200.516](#) Audit findings.
- ▶ The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section. The auditor's report(s) must state that the audit was conducted in accordance with this part and include the following:
  - An opinion (or disclaimer of opinion) as to whether the financial statement(s) of the Federal program is presented fairly in all material respects in accordance with the stated accounting policies;
  - A report on internal control related to the Federal program, which must describe the scope of testing of internal control and the results of the tests.
  - A report on compliance which includes an opinion (or disclaimer of opinion) as to whether the auditee complied with laws, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on the Federal program; and
  - A schedule of findings and questioned costs for the Federal program that includes a summary of the auditor's results relative to the Federal program in a format consistent with [2 CFR 200.515](#) Audit reporting and findings and questioned costs consistent with the requirements of [2 CFR 200.515](#) Audit reporting.

### **Report submission for program-specific audits**

The audit must be completed and the reporting of this section submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a different period is specified in a program-specific audit guide. Unless restricted by Federal law or regulation, the auditee must make report copies available for public inspection. Auditees and auditors must ensure that their respective parts of the reporting package do not include Protected Personally Identifiable Information (PII).

When a program-specific audit guide is available, the auditee must electronically submit to the FAC the data collection form prepared in accordance with [2 CFR 200.512](#) Report submission as applicable to a program-specific audit, and the reporting required by the program-specific audit guide.

When a program-specific audit guide is not available, the reporting package for a program-specific audit must consist of the financial statement(s) of the Federal program, a summary schedule of prior audit findings, and a corrective action plan as described in this section, and the auditor's report(s) described in this section. The data collection form prepared in accordance with [2 CFR 200.512](#) Report submission as applicable to a program-specific audit, and one copy of this reporting package must be electronically submitted to the Federal Audit Clearinghouse (FAC).

### **Other sections of this part may apply.**

Program-specific audits are subject to:

- ▶ [2 CFR 200.500](#) Purpose through [2 CFR 200.503](#) Relation to other audit requirements.
- ▶ [2 CFR 200.504](#) Frequency of audits through [2 CFR 200.506](#) Audit costs.
- ▶ [2 CFR 200.508](#) Auditee responsibilities through [2 CFR 200.509](#) Auditor selection.
- ▶ [2 CFR 200.511](#) Audit findings follow-up.
- ▶ [2 CFR 200.512](#) Report submission.
- ▶ [2 CFR 200.513](#) Responsibilities.
- ▶ [2 CFR 200.516](#) Audit findings through [2 CFR 200.517](#) Audit documentation.
- ▶ [2 CFR 200.521](#) Management decision.

Other referenced provisions of this part unless contrary to the provisions of this section, a program-specific audit guide, or program statutes and regulations.

### **Auditees**

#### **Auditee responsibilities - The auditee must:**

- ▶ Procure or otherwise arrange for the audit required by this part in accordance with [2 CFR 200.509](#) Auditor selection, and ensure it is properly performed and submitted when due in accordance with [2 CFR 200.512](#) Report submission.
- ▶ Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with [2 CFR 200.510](#) Financial statements.
- ▶ Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with [2 CFR 200.511](#) Audit findings follow-up.
- ▶ Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit required by this part.

### **Auditor selection**

**Auditor procurement** - In procuring audit services, the auditee must follow the procurement standards prescribed by the Procurement Standards in [2 CFR 200.317](#) Procurement by states through [2 CFR 200.326](#) Contract provisions of Subpart D- Post Federal Award Requirements of this part or the FAR ([48 CFR part 42](#)), as applicable. When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services, the objectives and scope of the audit must be made clear and the awardee must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS.



**Restriction on auditor preparing indirect cost proposals.** An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part when the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

**Use of Federal auditors** Federal auditors may perform all or part of the work required under this part if they comply fully with the requirements of this part.

### **Financial statements**

**Financial statements** - The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, awardee-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with [2 CFR 200.514](#) Scope of audit, and prepare separate financial statements.

### **Schedule of expenditures of Federal awards**

The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with [2 CFR 200.502](#) Basis for determining Federal awards expended.

**At a minimum, the schedule must:**

- ▶ List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency.
- ▶ For Federal awards received as an awardee, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- ▶ Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- ▶ Include the total amount provided to subrecipients from each Federal program.
- ▶ For loan or loan guarantee programs described in [2 CFR 200.502](#) Basis for determining Federal awards expended, identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- ▶ Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in [2 CFR 200.414](#) Indirect (F&A) costs.

### **Audit findings follow-up**

**General** - The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings. The auditee must also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan must include the reference numbers the auditor assigns to audit findings under [2 CFR 200.516](#) Audit findings. Since the summary schedule may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.

### **Summary schedule of prior audit findings**

The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs. The summary schedule must also include audit findings reported in the

prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with this section, or no longer valid or not warranting further action in accordance with this section.

- ▶ When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- ▶ When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or Arizona Department of Health Services management decision, the summary schedule must provide an explanation.
- ▶ When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
  - Two years have passed since the audit report in which the finding occurred was submitted to the FAC;
  - The Federal agency or Arizona Department of Health Services is not currently following up with the auditee on the audit finding; and
  - A management decision was not issued.

**Corrective action plan.** At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in [2 CFR 200.516](#) Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

#### **Report submission**

**General** - The audit must be completed and the data collection form described in this section and reporting package described in this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

**Unless restricted by Federal statutes or regulations** - the auditee must make copies available for public inspection. Auditees and auditors must ensure that their respective parts of the reporting package do not include Protected Personally Identifiable Information (PPII).

**Data Collection** - The FAC is the repository of record for Subpart F—Audit Requirements of this part reporting packages and the data collection form. All Federal agencies, the Arizona Department of Health Services and others interested in a reporting package and data collection form must obtain it by accessing the FAC.

**The auditee must submit required data elements described in [Appendix X to Part 200](#)** - Data Collection Form (Form SF-SAC), which state whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The data must include information available from the audit required by this part that is necessary for Federal agencies to use the audit to ensure integrity for Federal programs. The data elements and format must be approved by OMB, available from the FAC, and include collections of information from the reporting package described in this section. A senior level representative of the auditee (e.g., state controller, director of finance, chief executive officer, or chief financial officer) must sign a statement to be included as part of the data collection that says that the auditee complied with the requirements of this part, the data were prepared in accordance with this part (and the instructions accompanying the form), the reporting package does not include Protected Personally Identifiable Information, the information included in its entirety is accurate and complete, and that the FAC is authorized to make the reporting package and the form publicly available on a Web site.

**Exception for Indian Tribes and Tribal Organizations** - An auditee that is an Indian tribe or a tribal organization (as defined in the Indian Self-Determination, Education and Assistance Act (ISDEAA), [25 U.S.C. 450b\(l\)](#)) may opt not to authorize the FAC to make the reporting package publicly available on a Web site, by excluding the authorization for

the FAC publication in the statement described in this section. If this option is exercised, the auditee becomes responsible for submitting the reporting package directly to any pass-through entities through which it has received a Federal award and to pass-through entities for which the summary schedule of prior audit findings reported the status of any findings related to Federal awards that the pass-through entity provided. Unless restricted by Federal statute or regulation, if the auditee opts not to authorize publication, it must make copies of the reporting package available for public inspection.

**Reporting package** - The reporting package must include the:

- Financial statements and schedule of expenditures of Federal awards discussed in [2 CFR 200.510](#) Financial statements.
- Summary schedule of prior audit findings discussed in [2 CFR 200.511](#) Audit findings follow-up.
- Auditor's report(s) discussed in [2 CFR 200.515](#) Audit reporting.
- Corrective action plan discussed in [2 CFR 200.511](#) Audit findings follow-up.
- The auditee must electronically submit to the FAC the data collection form described in this section and the reporting package described in this section.
- In response to requests by a Federal agency or pass-through entity, auditees must submit a copy of any management letters issued by the auditor.
- Auditees must keep one copy of the data collection form described in this section and one copy of the reporting package described in this section on file for three years from the date of submission to the FAC.
- The FAC must make available the reporting packages received in accordance with this section and [2 CFR 200.507](#) Program-specific audits, except for Indian tribes exercising the option in this section, and maintain a data base of completed audits, provide appropriate information to Federal agencies, and follow up with known auditees that have not submitted the required data collection forms and reporting packages.
- Nothing in this part must preclude electronic submissions to the FAC in such manner as may be approved by OMB.

**Should you or any of your staff have questions regarding the proper administration of your contract, you should reference the CFR Title II, contact the sponsoring bureau's finance manager, the sponsoring bureau's program manager, the grant's financial contracts manager, or appropriate grant accounting personnel.**

## **Appendices**

The appendices listed directly below give detailed information on the listed topic area. In addition to having access to the Full Text Notice of Funding Opportunity, Contract provisions for Awardee contracts under federal awards, the data collection form (Form SF-SAC), a listing of organizations exempt from subpart C, the compliance supplement and award term and conditions for receipt integrity and performance matters, these links also direct local governments, non-profit organizations and Institutions of Higher Education links and reference guidance on establishing indirect cost agreements with the Federal government.

If your organization is planning on establishing an indirect cost agreement with the federal government, your cognizant agency for indirect costs or your cognizant agency for audit, please see the applicable appendix for your type of organization for instructions on establishing an approved rate with the federal government.

[Appendix I-Full Text of Notice of Funding Opportunity](#)

[Appendix II-Contract Provisions for Awardee Contracts Under Federal Awards](#)

[Appendix III -Indirect \(F&A\) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education \(IHEs\)](#)

[Appendix IV-Indirect \(F&A\) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations](#)

[Appendix V -State/Local Government wide Central Service Cost Allocation Plans](#)

[Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals](#)

[Appendix VIII to Part 200—Nonprofit Organizations Exempted From Subpart E—Cost Principles of Part 200](#)

[Appendix IX to Part 200—Hospital Cost Principles](#)

[Appendix X to Part 200—Data Collection Form \(Form SF-SAC\)](#)

[Appendix XI to Part 200—Compliance Supplement](#)

[Appendix XII to Part 200—Award Term and Condition for Recipient Integrity and Performance Matters](#)

## **Bibliography**

[Code of Federal Regulations \(CFR\) Title 2, Subparts A - F; December 26, 2014](#)

[CFR Title 31, Money and Finance: Treasury](#)

[CFR Title 37, Rights to inventions made by nonprofit organizations and small business firms under grants, contracts and cooperative agreements](#)

[CFR Title 45, Uniform administrative requirements, cost principles, and audit requirements for HHS awards](#)

[45 CFR part 75 Appendix IX, "Principles for Determining Costs Applicable to Research and Development under Awards and Contracts with Hospitals](#)

[CFR Title 48, Part 42, Contract administration and audit services](#)

[CFR Title 49, Part 24, Uniform relocation assistance and real property acquisition for federal and federally-assisted program](#)

[State of Arizona Accounting Manual \(SAAM\)](#)

[Government Accountability Office \(GAO\) Standards for Internal Control \(Greenbook\)](#)

[Global Technology Audit Guide \(GTAG\) – Institute of Internal Auditors; Varies by Subject Matter](#) (IIA Member Access Only)

[Government Auditing Standards \(Yellowbook\)](#)

[United States Code \(U.S.C.\)](#)

[OMB Circular A-129 – Policies for Federal Credit Programs and non-Tax receivables](#)

[OMB Circular A-21 – Cost principles for educational institutions](#)

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[The Department of the Treasury – Treasury Financial Manual](#)

[Immigration and Nationality Act](#)

[Electronic Fund Transfer Act](#)

[Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970](#), as amended, ([42 U.S.C. 4601-4655](#)) (Uniform Act)

[Federal Technology Transfer Act](#) (15 U.S.C. 3710 (i))

[Educational Technology: Ensuring Opportunity for All Children in the Next Century](#)

[Freedom of Information Act \(5 U.S.C. 552\(a\) \(4\) \(A\)\)](#)